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C O N F I D E N T I A L SECTION 01 OF 02 KUWAIT 003831

SIPDIS

STATE FOR EB/ESC/TFS IKRUM, S/CT TKUSHNER, NEA/ARPI  
SWALKER, NEA/ELA SSONTY, NEA/IPA GLOGERFO, EB/JBLOOM, NSC  
FOR JZARATE, TREASURY FOR DGLASER, OFAC DIRECTOR RWERNER,  
JUSTICE FOR JSILVERWOOD,

E.O. 12958: DECL: 08/27/2015

TAGS: [EFIN](#) [ETTC](#) [KTFN](#) [KVRP](#) [PTER](#) [PINR](#) [CVIS](#) [KU TERRORISM](#)  
SUBJECT: KUWAIT CENTRAL BANK GOVERNOR OPTIMISTIC ABOUT NEW  
TERROR FINANCE LAW, KUWAIT'S ECONOMY AND PROSPECTS FOR A  
REGIONAL FINANCIAL CENTER

REF: STATE 3774

Classified By: Ambassador Richard LeBaron: Reasons 1.4 (b) and (d)

[11.](#) (C) Summary. In an August 24 meeting with the Ambassador, Sheikh Salem Abdulaziz Al-Sabah, Governor of the Central Bank of Kuwait made the following key points: (1) GOK remains committed to enacting comprehensive legal reform on terror finance and money laundering; (2) an independent auditing firm should assess Kuwaiti charities; (3) economic reform is on hold as a result of the booming economy; (4) powerful politicians and poor management can derail prospects for a Kuwaiti Securities and Exchange Commission; (5) Kuwait has the makings of a regional financial center; and (6) Kuwait's expatriate laborers need better laws to protect their rights. End Summary

#### Comprehensive Terror Finance Law

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[12.](#) (C) On August 24, Ambassador met with Sheikh Salem Abdulaziz Al-Sabah, Governor of the Central Bank of Kuwait. The Ambassador stressed the importance of maintaining dialogue on terrorist financing (TF) and anti-money laundering (AML) initiatives to ensure continued success in these two increasingly important arenas of cooperation. The Ambassador called for sustained and urgent action to ensure timely implementation of TF/AML measures. The Ambassador also mentioned the upcoming visit by Treasury's OFAC Director Robert Werner to Kuwait as an important opportunity to discuss TF/AML issues (Note: Al-Sabah will be in Bahrain for the GCC Central Bank Governors meeting in mid-September and recommended Mr. Werner meet Deputy Governor Nabeel Al-Mannae in his absence.)

[13.](#) (SBU) Al-Sabah reaffirmed the Government of Kuwait's (GOK) continued commitment to combating TF/AML as part of its ongoing efforts to enact legal reform and strengthen its relevant institutions. Al-Sabah pointed out that the National Committee to Combat Terror Finance and Money Laundering has as its main objective the amendment of the current AML law. Al-Sabah said the draft law will be ready in December and will be submitted to the Council of Ministers (cabinet) for approval and subsequently to the National Assembly for adoption. Al-Sabah agreed with the Ambassador to "exchange notes" on the draft before it is submitted for approval and adoption.

[14.](#) (SBU) Al-Sabah explained that the National Assembly was aware of the pending law and its comprehensive nature intended to address shortfalls in the country's TF/AML regime. He admitted that the country's TF/AML efforts should be centralized under one authority to ensure a streamlined process. He commented that the struggle against TF and ML would be a long-term endeavor for Kuwait and the region.

#### Independent Audit Firm for Charity Oversight

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[15.](#) (C) With regard to charity oversight, Al-Sabah offered an alternative solution to the current Cabinet decree requiring the Ministry of Social and Labor Affairs' (MSLA) approval of all charity fund transfers abroad. In an effort to further strengthen the current system, Al-Sabah proposed that an independent non-governmental auditing firm, hired by the MSLA, provide quarterly reports on charities to the ministry for review and appropriate action. Al-Sabah noted that he seemed to have convinced the Minister of Social and Labor Affairs but needed to follow-up with him on the matter. The Ambassador offered to follow-up with the minister as well to advance the idea.

[16.](#) (C) The Ambassador took the opportunity to mention the ongoing efforts of U.S. customs advisors assigned to the Kuwaiti Customs Agency to strengthen customs enforcement and launch new anti-money laundering initiatives. The Ambassador called for continued GOK support for their efforts as part of

the broader TF/AML program. Al-Sabah was familiar with this cooperation and voiced support for the effort.

#### Another Great Year for the Kuwaiti Economy

17. (SBU) On the Kuwait economy, Al-Sabah voiced enthusiasm with continued record growth rates (20 percent nominal GDP; 10 percent real GDP growth) but cautioned against the excess liquidity in the economy spurred by increased government spending, the oil boom, and repatriated Kuwaiti capital. He added that export of capital was lower than import capital (for this traditionally capital exporting country) and that the Central Bank had increased its interventions in the market to control inflation, which is at 2.3 percent (annualized) in comparison to its typical range of 0.7 and 1.5 percent. Al-Sabah was less optimistic about the prospects of economic reform given GOK officials' unwillingness to tackle the issue amidst unprecedented economic growth.

18. (C) The Ambassador asked about the possibility of establishing a Securities and Exchange Commission for Kuwait to help regulate the country's stock market. Al-Sabah agreed on its utility but cautioned that without good corporate governance, the SEC would fall prey to mismanagement and the whims of powerful politicians. The Ambassador emphasized the need for electoral reform to resolve the current districting problems. He explained that Kuwait's current districting laws bind parliamentarians to a select constituency in small districts rather than to broader and more diverse constituencies and issues of national interest.

#### Looking Ahead: Kuwait as Regional Financial Hub

19. (C) Al-Sabah said he was not attending the World Bank/IMF meetings in Washington because he was recently assigned to head a government committee to explore the prospects of Kuwait becoming a regional financial center. He pointed out that Kuwait's infrastructure, communications system, and extensive laws provided the key ingredients for a successful outcome and that a key missing ingredient was incentives for foreign banks. He dismissed the notion of Dubai serving as a financial model, remarking that the lack of oversight of the country's financial institutions made it an "imprudent market" plagued by excessive freedom and lack of appropriate regulations. With regard to foreign banks entry into the Kuwait market, Al-Sabah noted that Citibank had finally completed its application to begin operations, joining BNP Paribas and HSBC which are already operational.

#### Rights of Kuwait's Expat Laborers

110. (C) The Ambassador urged the Governor to take into account the rights of expatriate laborers within the context of labor laws and the assessment for a Kuwaiti financial center, stressing the importance of addressing the needs and rights of the country's laborers. The Ambassador explained that the problem had become a growing human rights concern with the potential to impact the bilateral relationship. Al-Sabah accepted the criticism and expressed dismay with the manner in which many expatriate laborers are treated. He said a stronger legal framework is required to regulate this part of the economy.

#### Bio Note

111. (U) Sheikh Salem Abdulaziz Al-Sabah was born on November 1, 1951. He received his Bachelor of Arts in Economics at the American University of Beirut. He has been Governor of the Central Bank of Kuwait and Chairman of the Board of Directors since October 1, 1986. Al-Sabah serves on the board of a number of financial institutions including the Institute of Banking Studies, the Kuwait Investment Authority, the Higher Petroleum Council, the Higher Council on Planning and Development and as Alternate Governor of the State of Kuwait at the IMF and Arab Monetary Fund. One of his sons is currently employed by BNP Paribas and another by the Social Services Endowment.

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